2025 EDITION

EXECUTIVE PERSPECTIVES ON TOP RISKS

for the Near- and Long-Term

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Cyber threats, economic concerns and labour issues shaping current and future risk landscape for private equity firms and their portfolio companies

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Board members and senior executive teams need to navigate an evolving business environment. This may generate opportunities for strategic advantage or risks leading to unexpected disruption and performance shortfalls. An ability to anticipate risks that may be on the horizon before they become imminent can help leaders navigate unfolding developments — particularly those that are uncontrollable — that may impact their organization's value and growth objectives.

Our 13th annual **Executive Perspectives on Top Risks Survey** contains insights from 1,215 board members and C-suite executives around the world regarding their views on the top risks they see on the near- and long-term horizons. Specifically, our global respondent group provided their perspectives about the potential impact over the near term (two to three years ahead) and long term (over the next decade) of 32 risk issues across these three dimensions:

- **Macroeconomic risks** likely to affect their organisation's growth opportunities
- **Strategic risks** the organisation faces that may affect the validity of its strategy for pursuing growth opportunities
- **Operational risks** that might affect key operations of the organisation in executing its strategy

Commentary — Private Equity industry group

Value creation — the ability to transform portfolio companies, enhance operational efficiency and drive profitable growth within a defined investment window — is at the heart of the private equity (PE) industry's mission. However, achieving sustainable value is more challenging than ever for PE investors. Traditional strategies like leveraged buyouts, aggressive cost-cutting and financial engineering can no longer ensure success. Elevated interest rates have driven up capital costs, making debt-fueled acquisitions and expansion plans less viable for PE firms. Inflationary pressures are also increasing labour, supply chain and operational expenses, squeezing margins across industries.

At the same time, workforce expectations are shifting, while AI-driven business models are reshaping how companies operate and compete. To stay ahead, portfolio companies must invest more in talent, innovation and digital transformation — yet executing these initiatives under the compressed timelines of PE ownership is more than tough.

According to findings from Protiviti's latest Top Risks survey, executives and board members from PE firms and their portfolio companies are facing several complex and interconnected risks — operational, macroeconomic and strategic — that could derail their value-creation efforts. In addition to economic-related worries, cyber threats rank as a top risk issue for this industry group, and with good cause.

Analysis of the top near-term risks for private equity firms and portfolio companies

PE leaders concerned about increased exposure to cyber threats and regulatory scrutiny

Cyber threats have surged from seventh place on last year's list of near-term risks for PE firms and portfolio companies to claim the top spot in this year's rankings. Several factors helped fuel this operational risk's leap to number one. Among them is the fact that PE firms are prime targets for cybercriminals because they hold vast amounts of sensitive financial data, proprietary deal information and insights into portfolio companies — and that volume of data is only growing.

Additionally, many PE firms manage diverse portfolio companies across multiple industries, which each have their own set of cybersecurity risks and vulnerabilities. Attackers aim to exploit weak links in portfolio companies to gain access to the broader PE ecosystem. Cyber threats are also a risk to the enterprise value of portfolio companies. If a portfolio company experiences a major cyberattack, it can lead to:

- Financial losses from ransomware demands, fraud and business disruptions
- Reputational damage that erodes customer trust and market position
- Regulatory fines and legal liabilities due to the breach of sensitive data
- Increased scrutiny from buyers during exit negotiations, which can lead to lower valuations or failed deals

For PE firms, value creation and exit strategies are critically important, and cyber incidents can derail both by making an asset less attractive to future buyers. Not surprisingly, many limited partners and institutional investors are stepping up to demand greater transparency from PE firms and portfolio companies about cybersecurity risks and their potential bottom-line impacts.

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Heightened regulatory scrutiny is also driving PE firms to sharpen their focus on cybersecurity and bolster resilience. Across the globe, regulators and compliance bodies are tightening cybersecurity requirements for financial institutions, including PE firms. For example, in the U.S., the Securities and Exchange Commission (SEC) recently proposed rules requiring enhanced cyber risk disclosures for investment managers.[1] In addition to stricter reporting requirements, these rules introduce greater accountability for cybersecurity incidents — and potential fines for compliance missteps.

Due to inflationary pressures and slower growth, PE firms focusing more on enhancing portfolio company value and efficiency

Economic conditions, including inflationary pressures, dropped from the top spot in our 2024 survey to second place on the list of near-term risks for PE firms and portfolio companies. While economic risks remain, cyber threats, which can cause sudden and devastating financial and reputational damage, are the more immediate worry than inflation, which firms have been actively managing.

Many PE firms have adjusted to inflationary pressures in recent years by securing different financing structures and repricing their deals as needed. Private credit options have emerged as an option to help sustain deal activity in the PE space despite higher borrowing costs. PE firms are also focusing more on value creation and operational efficiency within their portfolio companies. Aggressive cost-cutting, automation, and strategic mergers and acquisitions (M&A) are among the strategies that firms have been using to counterbalance economic headwinds.

Meanwhile, initial public offering (IPO) markets remain volatile, limiting exit opportunities for PE-backed firms. Secondary sales — or selling portfolio companies to other PE firms — are also slowing down, as firms grow more cautious about overpaying in a turbulent economy. Fundraising cycles are lengthening, too, with limited partners being more selective about committing capital amid market uncertainty.

PE firms and portfolio companies grappling with a convergence of workforce-related risks undermining value creation

Four deeply interconnected risks — talent and labour availability; the ability to attract, develop and retain top talent; AI-driven skills shortages; and rising labour costs — round out the top six near-term risks for PE firms and their portfolio companies. Here's our take on why this lineup of macroeconomic, strategic and operational risks is weighing on the minds of executives and board members in this industry group.

PE firms and their portfolio companies are grappling with a workforce landscape that is shrinking, evolving and becoming more expensive. Demographic shifts, including an aging workforce, are reducing the labour supply, particularly for specialised roles. Immigration policy uncertainties in major economies are also limiting skilled labour availability. Wage inflation driven by talent shortages, higher minimum wages and union activity are amplifying cost pressures on portfolio companies as well.

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[1] "Final Rule: Cybersecurity Risk Management, Strategy, Governance and Incident Disclosure," last updated November 19, 2024, SEC: www.sec.gov/rules-regulations/2023/07/s7-09-22.

As for talent management and retention, today's employees, particularly younger generations, expect more from employers, including higher compensation, better work-life balance and clear career paths. Companies struggling with workforce engagement risk lower productivity and weakened performance. High turnover combined with poor succession planning, particularly at the leadership level, only make it that much harder for PE firms and portfolio companies to achieve long-term value creation.

Meanwhile, the adoption of AI and automation is accelerating faster than companies can reskill their workforces. Demand for AI specialists, data scientists and cybersecurity experts far exceeds the supply, making it expensive to hire and retain top talent. Portfolio companies in finance, healthcare and industrial sectors are particularly vulnerable, as AI adoption is reshaping job roles rapidly. AI-driven business models also require a new leadership mindset. Portfolio company executives must be tech-savvy and able to integrate AI-driven decision-making into strategy, operations and customer engagement.

Risk category	Top 10 near-term risk issues	Score
O	**1.** Cyber threats	3.28
M	**2.** Economic conditions, including inflationary pressures	3.25
M	**3.** Talent and labour availability	3.17
O	**4.** Ability to attract, develop and retain top talent, manage shifts in labour expectations, and address succession challenges	3.14
S	**5.** Adoption of AI and other emerging technologies requiring new skills in short supply	3.09
M	**6.** Increases in labour costs	3.07
O	**7.** Third-party risks	3.07
S	**8.** Rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces	3.05

S	**9.** Sustaining customer loyalty and retention	3.04
O	**10.** Emergence of new risks from implementing artificial intelligence	3.03

Each risk was rated in terms of its relative impact using a five-point Likert scale, where a score of 1 reflects "No Impact at All" and a score of 5 reflects "Extensive Impact" to their organisation over the near term (next two to three years).

An overview of the top long-term risks for private equity firms and portfolio companies

The fact that economic conditions and inflationary pressures ranks second among near-term risks but first on the list of long-term macroeconomic risks for this industry group suggests that PE leaders have some confidence in their ability to manage today's economic challenges. However, they remain concerned about deeper changes that could have more lasting impacts on their investment activity and ability to generate returns.

The second Trump administration's economic policies are one example. Higher tariffs imposed on goods from Canada and Mexico have already disrupted markets and complicated dealmaking for many companies, including delays and cancellations for some M&A deals. [2] The administration's efforts to expand investment opportunities in private markets to retail investors could also lead to more competition and scrutiny for PE firms.[3]

Other trends PE executives are no doubt monitoring closely include liquidity challenges in venture capital, slowing global GDP, and the potential for governments to use higher corporate taxes or wealth taxes to ease rising national debt levels. Central banks are adjusting their roles in economic policy, with governments taking more direct actions that can impact long-term economic conditions.[4] This shift will likely influence interest rates, inflation and overall economic stability — which are all crucial considerations for PE firms' investment strategies.

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[2] "Trump policies cast chill on Wall Street dealmaking," by Svea Herbst-Bayliss, Abigail Summerville and Sabrina Valle, Reuters: March 5, 2025: www.reuters.com/world/us/trump-policies-cast-chill-wall-street-dealmaking-2025-03-05/.

[3] "America First Investment Policy," The White House, February 21, 2025: www.whitehouse.gov/presidential-actions/2025/02/america-first-investment-policy/.

[4] "Central banks slip into the shadows," by Mike Dolan, Reuters, March 10, 2025: www.reuters.com/markets/europe/central-banks-slip-into-shadows-2025-03-10/.

Looking at the top-rated macroeconomic risks for the PE industry group, the adoption of AI and other emerging technologies requiring new skills in short supply ranks first. PE firms are taking diverse approaches to AI adoption. Some are cautiously integrating generative AI tools into their operations, while others are fully committed to using AI-driven insights to enhance their investment decision-making, portfolio management and value-creation strategies.

As AI capabilities evolve, PE firms and portfolio companies that fail to integrate AI effectively may fall behind competitors. Moving too fast and overinvesting are also risks. The challenge is to strike the right balance between experimentation, risk management and strategic AI deployment — ensuring that AI adoption enhances long-term value creation rather than introducing new vulnerabilities.

A growing number of PE firms are actively investing in AI-driven businesses, particularly in sectors like healthcare and fintech, where AI-powered efficiencies can drive competitive advantage. Top firms are proactively assembling data scientist teams, and some are even aggregating data across their portfolio companies to develop proprietary AI models that can inform investment strategies, operational improvements and deal structuring.

As AI capabilities continue to evolve, PE firms and portfolio companies that fail to integrate the technology effectively may fall behind competitors. Moving too fast and overinvesting are also risks. The challenge is to strike the right balance between experimentation, risk management and strategic AI deployment — ensuring that AI adoption enhances long-term value creation rather than introducing new vulnerabilities.

AI also plays a role in PE firms and portfolio companies ranking cyber threats as the top operational risk for their industry group looking out to 2035. AI tools can help businesses to strengthen their cyber defences. However, AI capabilities also empower cybercriminals to enhance their tactics and success rates.

Given that AI will be fundamental to value creation over the long term, PE firms and their portfolio companies must address talent gaps in AI, particularly in cybersecurity, to stay ahead of evolving threats. This means proactively investing in specialised talent, upskilling existing teams and fostering partnerships with AI-driven security firms. PE firms and portfolio companies that can build AI expertise and integrate advanced cybersecurity strategies will be those best positioned to safeguard critical assets, protect sensitive data and maintain investor confidence today — and in the future.

Macroeconomic risk issues

Risk	Percentage
Economic conditions, including inflationary pressures	35%
Talent and labour availability	33%
Increases in labour costs	29%

Strategic risk issues

Risk	Percentage
Adoption of AI and other emerging technologies requiring new skills in short supply	29%
Rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces	27%
Sustaining customer loyalty and retention	26%

Operational risk issues

Risk	Percentage
Cyber threats	30%
Third-party risks	25%
Ability to attract, develop and retain top talent, manage shifts in labour expectations, and address succession challenges	28%

Note: Respondents were asked to identify the top two risks in each category (macroeconomic, strategic, operational) separately. That is, respondents identified six risks (two in each category) as top two risks. For each category, the three risk issues (including ties) receiving the most responses by percentage are shown.

About the Executive Perspectives on Top Risks Survey

We surveyed 1,215 board members and executives across a number of industries and from around the globe, asking them to assess the impact of 32 unique risks on their organisation over the next two to three years and over the next decade, into 2035. Our survey was conducted online from mid-November 2024 through mid-December 2024. For the near-term outlook, each respondent was asked to rate 32 individual risks on a five-point Likert scale, where 1 reflects "No Impact at All" and 5 reflects "Extensive Impact." For each of the 32 risks, we computed the average score reported by all respondents and rank-ordered the risks from highest to lowest impact.

We also asked executives to share their perspectives about long-term risks (over the next 10 years to 2035) by selecting the top two risks from each of the three dimensions (macroeconomic, strategic and operational). For each of the 32 risks, we calculated the percentage of respondents who included that risk as one of their two top risks for each dimension.

Read our *Executive Perspectives on Top Risks Survey* executive summary and full report at www.protiviti.com or http://erm.ncsu.edu.

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